

Daniel Cancelmi

Volume 5

<p style="text-align: right;">Page 1385</p> <p>1 date of Exhibit 29, September 24th, and when the      2 audit committee met in October bringing to the      3 attention of Mr. Buettner that there was an      4 \$80 million write-off being proposed?      5 A. That may have been brought to Bill's 12:23PM      6 attention.      7 Q. Do you recall actually doing that?      8 A. Personally?      9 Q. Yes.      10 A. I don't remember specifically. 12:23PM      11 Q. Do you know whether anybody at AHERF      12 brought that to the attention of Bill Buettner      13 before the October 1996 audit committee?      14 A. I -- I don't know. I mean, Bill was      15 certainly fully aware of the problems in the 12:23PM      16 accounts receivable area. And, you know, in      17 terms of the -- when they would have been      18 evaluating June '96 allowances, I mean, it's not      19 like these numbers were -- you know, it was like      20 we've been talking about. There was a pretty 12:24PM      21 thorough analysis done in June '96, and I -- I      22 can't say specifically whether this -- like this      23 memo and some of the numbers were discussed. I      24 don't -- I don't remember offhand, but I      25 certainly don't remember it being some, you know, 12:24PM</p>	<p style="text-align: right;">Page 1387</p> <p>1 Q. Now, you testified a little bit last      2 time about the three attachments, Attachments A      3 through C, which are three scenarios for new bad      4 debt reserving methodologies for the DVOG      5 hospitals, right? 01:37PM      6 A. Yes.      7 Q. And my question about those scenarios      8 is: Could you explain to us, please, how you      9 went about coming up with the loss percentages in      10 these different scenarios? 01:37PM      11 A. This was -- it was just a number of      12 different ways to potentially look at the bad      13 debt reserve computation, under a couple of      14 different scenarios. Some is a little more      15 global, where the others -- Scenario 1 is pretty 01:37PM      16 high level. Scenarios 2 and 3 got into a little      17 bit more detail in terms of trying to split the      18 categories out by either, you know, different      19 aging categories or by payor.      20 Q. And Scenario 3 is the scenario that 01:38PM      21 ended up being adopted; is that right?      22 A. I believe so.      23 Q. And just to make sure we're on the      24 same page with how this memo works: In effect      25 for Hahnemann University Hospital, that's the 01:38PM</p>
<p style="text-align: right;">Page 1386</p> <p>1 secret.      2 Q. All right. So you can't recall      3 anybody telling Bill Buettner about the      4 \$80 million write-off before October 15th, 1996?      5 A. I -- what's October 15th? 12:24PM      6 Q. The date of the audit committee      7 meeting.      8 A. Oh. I don't know.      9 MR. RYAN: Okay. Why don't we take      10 a break. 12:24PM      11 THE VIDEOGRAPHER: We're off the      12 record at 12:24 p.m.      13 (Lunch recess.)      14 THE VIDEOGRAPHER: We're back on the      15 record at 1:36 p.m. 01:36PM      16 Q. (BY MR. RYAN) Good afternoon,      17 Mr. Cancelmi.      18 A. Good afternoon.      19 Q. Let me hand you another exhibit that      20 you were shown by counsel for the creditors 01:36PM      21 committee. It's Exhibit 30. Now, this is a memo      22 from you to Mr. Spargo, dated September 30th,      23 1996, again on the topic of Delaware Valley bad      24 debt reserves; is that right?      25 A. Yes. 01:37PM</p>	<p style="text-align: right;">Page 1388</p> <p>1 Scenario 3 on Bates page 230; and for      2 MCP Hospital, it's the Scenario 3 on Bates      3 page 231; and for the three other DVOG hospitals,      4 it's the Scenario 3 on Bates page 232?      5 A. Yes. 01:38PM      6 Q. Now, when you came up with these loss      7 percentages, did you do any type of review of the      8 historical payment record for the different payor      9 categories for these DVOG hospitals?      10 A. Our department really didn't go into 01:39PM      11 specific payment history type of analysis. Some      12 of this was more based on historical loss      13 patterns and just some discussions internally,      14 you know, maybe self-pay, do 100% after it gets      15 so old, you know, half of it before it gets that 01:39PM      16 old; medical assistance was over 180 days. A lot      17 of times if an account is that old, you can't      18 bill it. So it was, you know, more just trying      19 to set forth maybe a couple of different ways to      20 go about looking at something. 01:39PM      21 Q. And this is a review that you and      22 Robin Schaffer undertook; is that right?      23 A. We put it together. I mean, a number      24 of different people got involved in looking at      25 this, you know, Spargo and Chuck Morrison. And, 01:40PM</p>

Daniel Cancelmi

Volume 5

<p style="text-align: right;">Page 1393</p> <p>1 scenarios in their mind; but I think ultimately 2 the number 3 scenario was the one we went with. 3 Q. And what you're talking about about 4 having 10 or 20 accountants in a room who would 5 come up with 10 or 20 different answers is all 01:45PM 6 part of what we've been talking about, that the 7 bad debt allowance is an estimate and you've got 8 to apply judgment to it? 9 A. Yes. 10 Q. There's no single right answer? 01:45PM 11 A. Not necessarily. 12 Q. Let me show you -- 13 MR. RYAN: Actually, surprisingly, 14 this doesn't seem to have been marked yet, so 15 let me mark as a new exhibit -- it will be 01:45PM 16 Exhibit 2280 -- the document with Bates numbers 17 PR-SS 02854 through 59. 18 (Exhibit 2280 marked.) 19 Q. (BY MR. RYAN) Do you recognize 20 Exhibit 2280, Mr. Cancelmi? 01:46PM 21 A. Yes. 22 Q. What is it? 23 A. It's a memo I wrote on Delaware Valley 24 bad debt reserve calculations. 25 Q. And is this one of a series of memos 01:46PM</p>	<p style="text-align: right;">Page 1395</p> <p>1 specifically at Bates 2856 to 2857, Attachment 1 2 to the memo, when we look at the loss percentages 3 and the payor categories, right? 4 A. Yes. 5 Q. So as of December 31st, 1996, making 01:48PM 6 those two assumptions -- that is, that the 7 write-off takes place in its entirety and that 8 the organization switches to the new bad debt 9 reserving loss percentages -- you calculated the 10 shortfall at \$53,668,000? 01:48PM 11 A. Yes. 12 MR. RYAN: Let me mark, please, as 13 Exhibit 2281 a document with Bates numbers 14 DC4564, pages 1 to 2. 15 (Exhibit 2281 marked.) 01:49PM 16 Q. (BY MR. RYAN) Now, Exhibit 2281 is a 17 version of the X-files as of December 31st, 1996, 18 right? 19 A. It's a summary of the reserves AHERF 20 had on various of its affiliates' financial 01:50PM 21 statements. 22 Q. That's the type of documents that were 23 sometimes referred to as the X-files, right? 24 A. Yeah, extra reserves. 25 Q. Now, most of the items on the first 01:50PM</p>
<p style="text-align: right;">Page 1394</p> <p>1 you wrote over time during the fiscal year 1997 2 in which you updated people at AHERF to whom you 3 reported about what the level of the bad debt 4 reserve shortfall was? 5 A. Yes. 01:47PM 6 Q. Let me make sure I understand a couple 7 things about the way that you went about 8 calculating this bad debt reserve shortfall. 9 This is a bad debt reserve shortfall assuming 10 that the \$81 million write-off took place in its 01:47PM 11 entirely, right, even though the write-off hadn't 12 yet all taken place at the time you wrote the 13 memo? 14 MR. TORBORG: Object to form. 15 A. Yes. It says the bad debt reserve 01:47PM 16 shortfalls after the projected future write-offs. 17 Q. (BY MR. RYAN) And is it also the case 18 that this is a calculation of a bad debt reserve 19 shortfall assuming the adoption of the new bad 20 debt reserve methodology that you and 01:47PM 21 Ms. Schaffer came up with? 22 A. This looks like the estimated reserves 23 were calculated based on the scenario in number 3 24 that was outlined in my memorandum. 25 Q. All right. And we can see that 01:48PM</p>	<p style="text-align: right;">Page 1396</p> <p>1 page of Exhibit 2281 are positive numbers, but 2 there are a few that are negative numbers 3 indicated by how they're in parentheses. For 4 example, at St. Christopher's Hospital for 5 Children, there's a temple underaccrual in the 01:50PM 6 amount of \$2,500,000, right? 7 A. Yes. 8 Q. Could you explain to us, please, what 9 the significance was of a negative number on the 10 Analysis of Reserves schedule? 01:51PM 11 A. For the negative, it would have been 12 where it looks like there's a possibility that 13 you would need to accrue for something for that 14 particular transaction. 15 Q. So that was, in affect, an exposure 01:51PM 16 item? 17 A. Yes. 18 Q. And now on the second page of 19 Exhibit 2281, there are two items in their own 20 section headed "Potential Exposure Items" down at 01:51PM 21 the bottom, and do you see that the first one is 22 a bad debt reserve shortfall in the amount of 23 \$54 million? 24 A. Yes. 25 Q. Is it your understanding that that is 01:51PM</p>

35 (Pages 1393 to 1396)

Daniel Cancelmi

Volume 5

<p style="text-align: right;">Page 1397</p> <p>1 the same \$54 million that we saw for the bad debt      2 reserve shortfall as of December 31st, 1996, in      3 your February 7th memo we marked as Exhibit 2280?      4 A. Yeah, if it's -- yes. I mean, it's      5 the same concept. I don't -- this was as of 01:52PM      6 probably November in that February 7th memo --      7 oh, no, maybe not. December 9th -- yeah, so      8 that -- yeah, would correspond.</p> <p>9 Q. Okay. So that looks to you like it's      10 the same bad debt reserve shortfall? 01:52PM</p> <p>11 A. Uh-huh.</p> <p>12 Q. And the fact that you had listed the      13 bad debt reserve shortfall here on the X-files in      14 this manner meant that you believed that it was a      15 potential exposure item that the organization 01:52PM      16 faced?</p> <p>17 A. Yeah, that's what -- that's how it was      18 labeled, "Potential Exposure Items."</p> <p>19 Q. Now, the next potential exposure item      20 is temporarily restricted funds in the amount of 01:52PM      21 \$35,800,000, right?</p> <p>22 A. Yes.</p> <p>23 Q. And you see that same amount is listed      24 as a positive entry under "AHERF" about halfway      25 down the second page of page 2? 01:53PM</p>	<p>1 know, there was these Lockhart funds and, you      2 know, they classified them as temporarily      3 restricted, and I guess, you know, the debate      4 was, you know, should it be unrestricted, should      5 it be temporarily unrestricted, should it be 01:54PM      6 permanently restricted?</p> <p>7 Q. Right. So you knew at this time, when      8 you were working on the analysis of reserves in      9 Exhibit 2281, that there was a potential that the      10 Lockhart trust funds were misclassified? 01:54PM</p> <p>11 A. That was my understanding, that      12 they -- that was being evaluated.</p> <p>13 Q. Being evaluated by others at AHERF      14 involved in the western region accounting?</p> <p>15 A. Yes. 01:54PM</p> <p>16 MR. RYAN: Let me mark, please, as      17 Exhibit 2282 a document with Bates numbers      18 DC4563, pages 1 to 6.      19 (Exhibit 2282 marked.)</p> <p>20 Q. (BY MR. RYAN) Now, Exhibit 2282 01:55PM      21 actually consists of a number of different      22 schedules, which we found in your files in      23 consecutive order. So if you wouldn't mind just      24 taking a moment to flip through them, I'm going      25 to ask you some questions about how they relate 01:55PM</p>
<p style="text-align: right;">Page 1398</p> <p>1 A. Yes.</p> <p>2 Q. And I take it that AHERF there refers      3 to AHERF, the parent corporation?</p> <p>4 A. Correct.</p> <p>5 Q. And was that \$35,800,000 amount a 01:53PM      6 reference to what was at December 31st, 1996, the      7 temporarily restricted balance of the Lockhart      8 trust funds?</p> <p>9 A. I believe so, yes.</p> <p>10 MR. TORBORG: Object to form. 01:53PM</p> <p>11 Q. (BY MR. RYAN) And why were you      12 carrying the Lockhart trust fund balance as a      13 potential exposure item on the X-files?</p> <p>14 MR. TORBORG: Object to form.</p> <p>15 A. Because the funds had been classified 01:53PM      16 as temporarily restricted, and depending on the      17 classification, whether that ultimately ended up      18 being the final resolution of that, it      19 potentially would be an exposure item.</p> <p>20 Q. (BY MR. RYAN) Because you knew that 01:53PM      21 there was the potential that they were      22 misclassified?</p> <p>23 A. Well, I wouldn't say that. There      24 was -- this was on the Pittsburgh side, and there      25 was -- you know, I knew that there was -- you 01:54PM</p>	<p>1 to each other.</p> <p>2 A. You can ask the question.</p> <p>3 Q. All right. Now, these are various      4 versions of reserve analyses in the June 1996 or      5 as of June 30th, 1996 time frame, right? 01:56PM</p> <p>6 A. Yes.</p> <p>7 Q. Now, based on your practice of working      8 with reserve schedules of this type from prior      9 periods, then updating them, do you think that      10 the one which is earliest in time in this 01:56PM      11 package, Exhibit 2282, is the last two pages?</p> <p>12 A. That's what it looks like. Whether      13 there was one before this, I don't know.</p> <p>14 Q. Sure. I'm just talking about the ones      15 that we have here in Exhibit 2282. 01:56PM</p> <p>16 And is that your handwriting on the      17 last page of the exhibit?</p> <p>18 A. Yes.</p> <p>19 Q. And you're writing down additional      20 items to put on the X-files schedule at AGH and 01:57PM      21 at AHERF, the parent corporation, right?</p> <p>22 MR. TORBORG: Object to form.</p> <p>23 A. Yeah, the second page is -- yeah,      24 they're being pencilled in for AGH and AHERF.</p> <p>25 Q. (BY MR. RYAN) At AGH, it includes 01:57PM</p>

36 (Pages 1397 to 1400)

Daniel Cancelmi

Volume 5

<p style="text-align: right;">Page 1413</p> <p>1 hospitals, somebody who could have stood up and 2 said, "I don't want Graduate reserves transferred 3 to DVOG," whether those transfers might have been 4 undone as well?</p> <p>5 MR. TORBORG: Object to form and 02:14PM 6 foundation.</p> <p>7 A. Yes, there was comparable people at 8 Graduate in the comparable position of Dionisio 9 and Moyer.</p> <p>10 Q. (BY MR. RYAN) Chuck Morrison? 02:14PM 11 A. Chuck Morrison would be one. 12 Q. Who was also CFO of DVOG? 13 A. Correct. 14 Q. So he didn't have any Graduate 15 interest separate from DVOG? 02:14PM 16 A. I'm not the one to answer that, but he 17 was CFO of both of them. There was Matt Dowling, 18 he was the CFO over the Graduate hospitals; and 19 Neal Lubarski. There was actually more on the 20 Philadelphia side in those comparable roles than 02:14PM 21 there was on the Pittsburgh side. 22 Q. All right. In any event, you never 23 heard any of those individuals lodge any kind of 24 protest about the transfer of reserves from 25 Graduate? 02:14PM</p>	<p style="text-align: right;">Page 1415</p> <p>1 to AHERF's gross accounts receivable days in 2 December 1996. 3 Is that your handwriting in the upper 4 right corner on the first page? 5 A. Yes. 02:17PM 6 Q. It's something you sent to Chuck 7 Lisman and Robin Schaffer? 8 A. Yes. 9 Q. And you wrote, "I thought both of you 10 would be interested in this propaganda, David"? 02:17PM 11 A. Yes. 12 Q. Can you explain to us why you referred 13 to this report as "propaganda"? 14 A. Yeah, they -- it portrays a picture 15 that a substantial amount of progress was being 02:17PM 16 made, and probably around the time this thing was 17 written, there was, you know, were a lot of 18 issues going on in the billing department which 19 would seem to potentially contradict it, but... 20 Q. I take it that by this time, in the 02:17PM 21 early 19- -- early calendar 1997 time frame, you 22 had lost a lot of the patience you might still 23 have had in calendar 1996 about improvements? 24 MR. TYCKO: Lost a lot of the what? 25 Q. (BY MR. RYAN) The patience that you 02:18PM</p>
<p style="text-align: right;">Page 1414</p> <p>1 MR. TORBORG: Object to form. 2 A. No. 3 Q. (BY MR. RYAN) Let me hand you, 4 Mr. Cancelmi, what's previously been marked as 5 Exhibit 32. If you could just take a moment to 02:14PM 6 flip through this and generally familiarize 7 yourself with what this document is without 8 obviously reading every page, since it's lengthy. 9 A. Okay. 10 Q. Do you recognize this document, 02:15PM 11 Mr. Cancelmi? 12 A. Yes. 13 Q. And what is it? 14 A. It's a summary of the patient 15 accounting department, their initiatives and I 02:15PM 16 guess the progress they've been making, 17 et cetera. 18 Q. All right. Sort of a similar document 19 to the accounts receivable narrative we looked at 20 earlier today and marked as an exhibit, 02:16PM 21 Exhibit 102? 22 A. Similar. 23 Q. And let me just try to help you place 24 this in time, because it is undated, like the 25 other one. Top of page 10, there's a reference 02:16PM</p>	<p style="text-align: right;">Page 1416</p> <p>1 might have had back in early calendar 1996 about 2 the timetable for improvements at the Patient 3 Financial Services Group. 4 A. I don't know if I had patience to 5 lose, since it wasn't my area of responsibility, 02:18PM 6 but, you know, this was a summary, certainly 7 their point of view. You know, you'd see some 8 things that would suggest otherwise. So that 9 was -- you know, everyone had their different 10 points of view on what some of the problems were. 02:18PM 11 Q. Do you know who, other than, of 12 course, you and Chuck Lisman and Robin Schaffer, 13 received copies of this document, Exhibit 32? 14 A. I guess I got it from Steve. I can't 15 say for sure. It was my understanding it was 02:18PM 16 fairly widely distributed, if I recall. And I 17 think we had conversations with Coopers about 18 this thing, asking whether they'd seen it and, 19 you know, saying, "Hey, there's some -- a rosy 20 picture being painted, you know, that seems to 02:19PM 21 contradict what seems to happen every month," but 22 I don't know exactly every person who got it. 23 Q. Were you concerned at the time that a 24 report like Exhibit 32 was being handed out 25 widely when you thought it was really a 02:19PM</p>

40 (Pages 1413 to 1416)

Daniel Cancelmi

Volume 5

<p style="text-align: right;">Page 1417</p> <p>1 propaganda?</p> <p>2 A. My point of view was, you know, it had 3 some comments in here that, you know, seemed to 4 contradict what was -- you know, we were seeing 5 every month; but I wasn't involved in the billing 02:19PM 6 department and, you know, you have to get in 7 there and really evaluate that in terms of 8 whether, you know, what's actually being 9 indicated is entirely appropriate, and it seemed 10 like some of the results of -- I think it was 02:19PM 11 pretty evident that some of the performance was 12 deteriorating in the billing department.</p> <p>13 Q. Did you have a view at the time as to 14 what the reason was for why the patient billing 15 department was putting out information that you 02:20PM 16 thought wasn't reliable?</p> <p>17 A. Well, I didn't know if I could -- I 18 didn't know if it was reliable or not. Why they 19 were putting this out, I don't know. I don't -- 20 I got this after the fact, I believe. Like I 02:20PM 21 said, I don't know exactly who it went to, but I 22 guess because of all the issues in the billing 23 department, people were asking for updates on the 24 status of how the department's performing. 25 Q. Do you remember telling anybody 02:21PM</p>	<p style="text-align: right;">Page 1419</p> <p>1 there was a disconnect between what the numbers 2 were and -- versus some of the conclusions or 3 summaries of what some of the issues were between 4 the accounting area versus the billing area. It 5 was widely known. 02:22PM</p> <p>6 Q. Do you remember any specific 7 conversations you had with anybody from Coopers &amp; 8 Lybrand about this report marked as Exhibit 32?</p> <p>9 A. I can't say 100% for sure, but I think 10 we had conversations regarding the summary that 02:22PM 11 was put out by patient accounting, but I can't 12 say 100% for sure because it's six years -- six, 13 seven years ago.</p> <p>14 Q. And with whom at Coopers &amp; Lybrand was 15 that? 02:23PM</p> <p>16 A. It probably either would have been 17 Buettner, Frazier or Kirsstein. Like I said 18 before, this morning, they would call over 19 periodically, "How's things going," and the A/R 20 area was something that, generally speaking, 02:23PM 21 seemed to always be discussed. So that would -- 22 if I had to narrow it down to three people, that 23 would be the three people I'd narrow it down to.</p> <p>24 Q. Okay. So I take it you don't recall 25 having a particular conversation with a 02:23PM</p>
<p style="text-align: right;">Page 1418</p> <p>1 besides Chuck Lisman and Robin Schaffer that you 2 thought this report was just propaganda?</p> <p>3 A. Yeah, I think I probably had a 4 conversation with Steve. Like I say, I think we 5 had a conversation with Coopers, maybe -- 02:21PM</p> <p>6 Q. Where you actually used words like 7 that, you actually said, "I think this, you know, 8 is propaganda"?</p> <p>9 A. I don't know if I used that exact 10 word, but I think there was conversations where, 02:21PM 11 you know, "There was a report out there; have you 12 seen it?"</p> <p>13 Q. Okay. But you can't recall whether 14 you were as critical to Coopers &amp; Lybrand about 15 this report as you were to Chuck and Robin? 02:21PM</p> <p>16 A. Oh, listen, we had very candid 17 conversations with Coopers &amp; Lybrand about the 18 billing department, and, in fact, you know, we 19 would say -- and I guess I'm paraphrasing but, 20 you know, we would indicate, you know, "This is 02:22PM 21 some of the reasons that they're saying. This is 22 what we're seeing. You know, there's a lot of 23 debate as to who's right and who's wrong here."</p> <p>24 So Coopers &amp; Lybrand was fully aware 25 of that there was -- at times, people viewed 02:22PM</p>	<p style="text-align: right;">Page 1420</p> <p>1 particular person about Exhibit 32?</p> <p>2 A. Specifically, no, I can't remember.</p> <p>3 Q. Let me hand you, Mr. Cancelmi, what's 4 previously been marked as Exhibit 147. Do you 5 recognize this memo? 02:24PM</p> <p>6 A. Yes.</p> <p>7 Q. And what is it?</p> <p>8 A. It's a memo from Russ Laing 9 summarizing out-of-period adjustments and 10 accounts at gross. 02:24PM</p> <p>11 Q. A memo he wrote to you?</p> <p>12 A. Yes.</p> <p>13 Q. And it looks like it's based on data 14 from July 1996 through February 1997.</p> <p>15 Do you see he states in the second 02:24PM</p> <p>16 bullet point about three-quarters of the way down 17 the page, "It can be seen that the entire impact 18 of properly addressing both of these longstanding 19 issues" -- I think he's referring to 20 out-of-period adjustments and accounts at 02:24PM 21 gross -- "would be a one time additional reserve 22 adjustment (increase) of approximately 23 \$5 to 6 million"?</p> <p>24 A. Yes.</p> <p>25 Q. Do you recall that Mr. Laing 02:25PM</p>

41 (Pages 1417 to 1420)

Daniel Cancelmi

Volume 5

1 recommended around this time, in the March 1997  
 2 time frame, taking a reserve -- a one-time  
 3 reserve in the amount of about \$5 to 6 million?  
 4 A. I think he recommended it a number of  
 5 times. 02:25PM

6 Q. Why was that reserve not taken?  
 7 MR. TORBORG: Object to foundation.  
 8 A. Because his fact pattern and what the  
 9 cause -- the root element of the problem, his  
 10 conclusions are wrong. 02:25PM

11 Q. (BY MR. RYAN) In what way were his  
 12 conclusions wrong?

13 A. Not to get into the specifics, but the  
 14 excuse every month for why there was  
 15 out-of-period adjustments was because accounts 02:25PM  
 16 were at gross, but the balance of accounts at  
 17 gross oftentimes didn't change between months.  
 18 So that being said, the fact that you have  
 19 out-of-period adjustments in a particular month  
 20 that would impair your net revenue line, if your 02:26PM  
 21 accounts at gross number is not decreasing, it  
 22 doesn't have an impact.  
 23 And what he always was saying was, "If  
 24 you guys would just record this, these accounts  
 25 at gross, all the problems would go away." And 02:26PM

Page 1421

Page 1423

1 Q. All right.  
 2 A. It's that simple.  
 3 Q. So you're saying, then, if the amount  
 4 of accounts at gross remained relatively constant  
 5 over a particular month or quarter, then there 02:28PM  
 6 shouldn't be any net impact on net revenue during  
 7 that period due to the accounts at gross problem?  
 8 A. By and large, that's a fair  
 9 characterization. And the other thing was, even  
 10 though on the surface, 5 or \$6 million is a lot 02:28PM  
 11 of money, for a company the size of Allegheny to  
 12 have 5 or \$6 million of accounts at gross wasn't  
 13 entirely unusual for a hospital company; but it  
 14 always came back to whenever anyone asked, "Why  
 15 is the revenue numbers down," it was always, "The 02:28PM  
 16 accounts were at gross, and that's what's driving  
 17 the revenue down."

18 Q. And who at AHERF was pointing to this  
 19 excuse of the accounts at gross to explain poor  
 20 revenue numbers? 02:29PM  
 21 A. It was the billing department.  
 22 Q. And your view at the time, the real  
 23 reasons for declines in revenues had to do, not  
 24 with accounts at gross, but with operational  
 25 issues, with volume or rates at the hospitals, 02:29PM

Page 1422

Page 1424

1 that wasn't the case.  
 2 Q. (BY MR. RYAN) Why do you say that if  
 3 accounts at gross remained the same from one time  
 4 to the next, that there shouldn't be any  
 5 out-of-period adjustments? 02:26PM  
 6 A. I didn't say that.  
 7 Q. I'm sorry. I thought -- I  
 8 misunderstood you. Could you explain that again?  
 9 A. What I said was the revenue, the net  
 10 revenue on a monthly basis, they always came up 02:27PM  
 11 with the answer that the reason it's low is  
 12 because there's accounts at gross out there that  
 13 aren't reserved for; and therefore, in the  
 14 following months when those accounts get  
 15 contractualized down, revenue goes down. 02:27PM  
 16 Well, that's not entirely accurate,  
 17 because they only looked at one side of the  
 18 fence. If you look at the other side of the  
 19 fence, there would be another -- there's an  
 20 offsetting item going the other way. 02:27PM  
 21 Q. I'm following you now, I think.  
 22 A. And they never -- they failed to  
 23 realize that, but it was always -- it was a  
 24 convenient answer as to why there was revenue  
 25 adjustments in a particular month. 02:27PM

1 right?  
 2 A. Well, I mean, there's so many  
 3 different issues, I can't sit here and give, you  
 4 know, an opinion as to what all the issues were.  
 5 There's a lot of issues, and that was the point; 02:29PM  
 6 but it seemed like a lot of times people tried to  
 7 focus in on one particular issue and say that's  
 8 the reason for everything, and it wasn't the  
 9 reason for everything.

10 MR. RYAN: Let me hand you what's 02:29PM  
 11 previously been marked as Exhibit 150.  
 12 MR. TYCKO: Here, you gave me an  
 13 extra copy. Thanks.  
 14 Q. (BY MR. RYAN) Do you see Exhibit 150  
 15 is a memo from Bill Gedman to Greg Snow, dated 02:30PM  
 16 July 17th, 1997?  
 17 A. Yes.  
 18 Q. You're not showing it -- shown as one  
 19 of the typed copies, but I think there might be a  
 20 handwritten note to you, though it's very faint, 02:30PM  
 21 to the right of the "To" and "From" block.  
 22 At any rate, do you recall receiving  
 23 this memo?  
 24 A. That's my handwriting at the top.  
 25 Q. Oh, where it says, "cc: Al, Chuck 02:31PM

42 (Pages 1421 to 1424)

Daniel Cancelmi

Volume 5

Page 1529

1 I do further certify that I am not a  
 2 relative, counsel or attorney for either party,  
 3 or otherwise interested in the event of this  
 4 action.

5  
 6 IN WITNESS WHEREOF, I have hereunto set  
 7 my hand and affixed my seal of office at  
 8 Friendswood, Texas, on this \_\_\_\_\_ day of  
 9 \_\_\_\_\_, 2003.

10  
 11  
 12  
 13  
 14 Michael E. Miller, CSR, RPR, CRR  
 15 Certified Shorthand Reporter  
 16 in and for the State of Texas  
 17 My Commission Expires 12/31/05  
 18  
 19  
 20  
 21  
 22  
 23  
 24  
 25

Page 1531

1 DEPOSITION EXHIBITS  
 2  
 3 Exhibit 2275 11/22/96 Memo to 1339  
     Distribution from Daniel J.  
 4 Cancelmi, Subject: Delaware  
     Valley Obligated Group  
 5 September 30, 1996 Financial  
     Statements  
 6 (DC1245 - pages 1-14 of 29)  
 7 Exhibit 2276 Delaware Valley Obligated 1341  
     Group Combined Financial  
 8 Statements, September 30,  
     1996  
 9 (DC1245, pages 15-29 of 29)  
 10 Exhibit 2277 Handwritten Notes 1343  
     (DC2919, page 1 of 7)  
 11  
 12 Exhibit 2278 1/18/97 Memo to Distribution 1350  
     from Daniel J. Cancelmi,  
     Subject: AHERF Eastern  
 13 Region November 30, 1996  
     Financial Statements  
 14 (DC1241, pages 1-14 of 14)  
 15 Exhibit 2279 Delaware Valley Obligated 1351  
     Group Combined Financial  
 16 Statements, November 30,  
     1996  
 17 (DC2777, pages 1-31 of 77)  
 18 Exhibit 2280 2/7/97 Memo to Charles P. 1393  
     Morrison from Daniel J.  
 19 Cancelmi, Subject: Delaware  
     Valley bad Debt Reserve  
 20 Calculations  
     (PR-SS 02854-859)  
 21  
 22 Exhibit 2281 AHERF Analysis of Reserves 1395  
     (DC4564, pages 1-2 of 14)  
 23  
 24  
 25

Page 1530

1 INDEX  
 2  
 3 APPEARANCES 1261  
 4 REPORTER'S NOTE 1263  
 5 ATTORNEYS AGREEMENTS 1264  
 6 PROCEEDINGS 1266  
 7  
 8 EXAMINATION OF DANIEL CANCELMI:  
 9 BY MR. RYAN: 1266  
 10  
 11  
 12 CERTIFICATE 1528  
 13  
 14 VIDEOTAPES  
 15 Tape 2 1347  
 16 Tape 3 1433  
 17 Tape 4 1510  
 18  
 19  
 20  
 21  
 22  
 23  
 24  
 25

Page 1532

1 DEPOSITION EXHIBITS [cont'd]  
 2  
 3 Exhibit 2282 AHERF Analysis of Reserves 1399  
     (DC4563, pages 1-6 of 35)  
 4  
 5 Exhibit 2283 8/7/97 Memo to David 1457  
     McConnell from Sherif S.  
     Abdelhak  
 6 (DC4473, page 1 of 1)  
 7 Exhibit 2284 Tab 8/Tab 15 - Allegheny 1461  
     General Hospital Notes to  
 8 Consolidated Financial  
     Statements, June 30, 1996  
 9 (TN C13A 01828-853)  
 10 Exhibit 2285 8/19/97 Memo to Al Adamczak 1467  
     from Joseph M. Scharf,  
 11 Subject: Depreciation  
     Recapture Summary  
 12 (DC5187, pages 1-2 of 2)  
 13 Exhibit 2286 1/8/98 Memo to CGALL from 1475  
     Robin Schaffer,  
 14 Subject: HIP NJ  
     (DC6687, page 1 of 1)  
 15  
 16 Exhibit 2287 7/31/97 Fax to list from 1491  
     Gregory M. Snow, Re: DVR Net  
     Revenue Budget Variances -  
 17 June 1997  
     (DLC NR 01 0870-875)  
 18  
 19  
 20  
 21  
 22  
 23  
 24  
 25

69 (Pages 1529 to 1532)

Page 1541



Daniel Cancelmi

Volume 6

Page 1618	Page 1620
<p>1 A. Yes. Now, I see.</p> <p>2 Q. All right. And you stated earlier</p> <p>3 that at the time of the 1996 audit, the</p> <p>4 collectability of the PATCOM receivables was in</p> <p>5 question -- 11:03AM</p> <p>6 A. Yes.</p> <p>7 Q. -- right?</p> <p>8 But you've only reserved 11,000 on</p> <p>9 this -- for this example, 11,000 of a balance of</p> <p>10 over 500,000? 11:03AM</p> <p>11 A. Yes, from the looks of it.</p> <p>12 Q. All right. Does that refresh your</p> <p>13 recollection about any concerns you may have had</p> <p>14 about the reasonableness of the bad debt</p> <p>15 reserve -- bad debt reserve percentages and, 11:03AM</p> <p>16 therefore, management's estimate for PATCOM</p> <p>17 receivables during the '96 audit?</p> <p>18 MR. RYAN: Objection.</p> <p>19 A. Well, offhand, I don't know if it was</p> <p>20 as much a concern over PATCOM receivables was the 11:03AM</p> <p>21 aging reserve percentages as -- as more as -- let</p> <p>22 me rephrase that.</p> <p>23 I'm not sure the concern was as much</p> <p>24 the reserve percentages as opposed to a more</p> <p>25 global issue as, "Here's the PATCOM receivables, 11:03AM</p>	<p>1 A. Uh-huh.</p> <p>2 Q. In fact, if you would take out</p> <p>3 Exhibit 29, which should be a couple more down</p> <p>4 there in your stack. If you look at the second</p> <p>5 page of that document... 11:05AM</p> <p>6 MR. RYAN: Just hold on a minute,</p> <p>7 David. Okay.</p> <p>8 Q. (BY MR. TORBORG) You have proposed a</p> <p>9 write-off of accounts based on what criteria?</p> <p>10 A. Well, the adjustments -- if we had 11:05AM</p> <p>11 written off the accounts, based on these aging</p> <p>12 categories, this summarized what those numbers</p> <p>13 would be. And depending on the hospital, the</p> <p>14 aging category varied. You know, Center City,</p> <p>15 this was a 365 number. The 271 to 365 was the 11:06AM</p> <p>16 7,000,050. And then if you go to East Falls</p> <p>17 Hospital, I guess their computer system was</p> <p>18 different, so they didn't have the same aging</p> <p>19 category breakout. And then for</p> <p>20 St. Christopher's, Elkins and Bucks, it was the 11:06AM</p> <p>21 PATCOM numbers; I believe that would have, I</p> <p>22 guess, been in their entirety.</p> <p>23 Q. But to answer my question: You're</p> <p>24 proposing the write-off of receivables based on</p> <p>25 the age of the accounts, right? 11:06AM</p>
<p>1 and are they going to be collected?" We know</p> <p>2 we've got x amount of receivables out there and</p> <p>3 there may only be x amount of reserve, no matter</p> <p>4 how the reserve was developed, and this would be</p> <p>5 one way that they were developed. 11:04AM</p> <p>6 But after you take into consideration</p> <p>7 whatever reserve was there in comparison to the</p> <p>8 receivable balance, the concern was, "Well, was</p> <p>9 that net number going to be collected.</p> <p>10 Q. (BY MR. TORBORG) So, then, is it fair 11:04AM</p> <p>11 to say that you do remember having some concerns</p> <p>12 about whether or not the PATCOM receivables were</p> <p>13 accurately -- adequately reserved and, therefore,</p> <p>14 stated at net realizable value?</p> <p>15 MR. RYAN: Objection, 11:04AM</p> <p>16 mischaracterizes his testimony.</p> <p>17 A. That was -- that was one of the audit</p> <p>18 issues.</p> <p>19 Q. (BY MR. TORBORG) Do you recall</p> <p>20 discussing that issue with Coopers &amp; Lybrand? 11:04AM</p> <p>21 A. Yeah, I think -- yeah, that issue was</p> <p>22 brought up regarding the PATCOM receivable.</p> <p>23 Q. Now, when you eventually proposed to</p> <p>24 write off various accounts in the September of</p> <p>25 1996 time frame -- 11:05AM</p>	<p>1 A. Well, I think I've testified a number</p> <p>2 of times, I don't know if it was a proposal, but</p> <p>3 if we -- if this was the method that we went</p> <p>4 about writing the accounts off, based on this</p> <p>5 methodology, these would be the numbers. 11:06AM</p> <p>6 Q. Okay.</p> <p>7 A. If the proposal was and it was</p> <p>8 implemented to pick these aging categories, these</p> <p>9 would be the numbers.</p> <p>10 Q. But you're proposing to write them off 11:07AM</p> <p>11 based on the age of the accounts, right?</p> <p>12 A. Yes.</p> <p>13 Q. Now, the existence of old accounts</p> <p>14 carried on the Delaware Valley hospitals' books</p> <p>15 was not a new issue that just occurred after the 11:07AM</p> <p>16 fiscal '96 audit, is it?</p> <p>17 A. Repeat that question again.</p> <p>18 Q. The existence of old accounts being</p> <p>19 carried on the Delaware Valley hospitals' books</p> <p>20 was not a new issue that occurred after the 1996 11:07AM</p> <p>21 audit, is it?</p> <p>22 A. No.</p> <p>23 Q. So the existence of old accounts was</p> <p>24 not new information at all that occurred after</p> <p>25 the 1996 audit, is it? 11:07AM</p>

21 (Pages 1618 to 1621)

Daniel Cancelmi

Volume 6

1 would AHERF have done, if anything, to increase  
 2 the Delaware Valley account balances for  
 3 allowance?  
 4 MR. RYAN: Objection.  
 5 A. What would they have done? 02:46PM  
 6 Q. (BY MR. TORBORG) Yes.  
 7 A. I'm not sure exactly what they would  
 8 have done. If the -- I guess if the reserves  
 9 hadn't been transferred, may not have been --  
 10 probably wouldn't have been enough reserves on 02:47PM  
 11 DVOG's books.  
 12 Q. Would AHERF have charged additional  
 13 bad debt expense to increase the reserves at  
 14 DVOG?  
 15 A. That would be one way of getting the 02:47PM  
 16 reserves --  
 17 MR. RYAN: I object to the question.  
 18 A. -- that they would have rather go to  
 19 bad debt expense.  
 20 Q. (BY MR. TORBORG) Mr. Cancelmi, I am 02:47PM  
 21 showing you what has previously been marked in  
 22 this litigation as Exhibit 1064, and we looked at  
 23 this one when we first met, I believe, but I  
 24 wanted to ask you a question that I'm not sure  
 25 that I asked you last time or Mr. Whitney asked 02:48PM

Page 1726

Page 1728

1 didn't write it, you can't tell?  
 2 A. Correct.  
 3 Q. Okay. My question is really: Do you  
 4 recall telling Mr. Kirstein that you didn't  
 5 believe that DVOG had any other general reserves 02:49PM  
 6 that it could use to throw out the bad debt  
 7 reserve problem?  
 8 A. I wasn't aware of any.  
 9 MR. RYAN: Objection.  
 10 A. If he's suggesting there's 50 million 02:49PM  
 11 of reserves out there, we weren't aware of it.  
 12 Q. (BY MR. TORBORG) Well, this  
 13 50 million could have been relating to the  
 14 50 million that was set up and transferred from  
 15 Graduate, right? 02:49PM  
 16 MR. RYAN: Objection.  
 17 A. I mean, I've got to believe that he's  
 18 talking about it's the same 50.  
 19 Q. (BY MR. TORBORG) My question is: Do  
 20 you recall telling Mr. Kirstein in the April '97 02:50PM  
 21 time frame that you did not believe that DVOG had  
 22 other excess general reserves to cover a bad debt  
 23 reserve shortfall?  
 24 MR. RYAN: Objection.  
 25 A. I don't remember specifically saying 02:50PM

Page 1727

Page 1729

1 you.  
 2 And that is: I think we established  
 3 last time that these appeared to be handwritten  
 4 notes by Mr. Kirstein?  
 5 A. Yes. 02:48PM  
 6 Q. Okay. And you would recognize his  
 7 handwriting?  
 8 A. Yes.  
 9 Q. All right. And then it appears to be  
 10 a -- his notes of a conference call or meeting 02:48PM  
 11 you had with him as well as Mr. Buettner and  
 12 Ms. Frazier?  
 13 MR. RYAN: Objection, form, no  
 14 foundation.  
 15 A. That's what it appears to be. I don't 02:48PM  
 16 know if it was a conference call or in person.  
 17 Q. (BY MR. TORBORG) Okay. Now, under  
 18 the heading "50 MM Reserves at Graduate," the  
 19 third item under there says, "Does not believe  
 20 there is any general reserves other than 50 MM." 02:49PM  
 21 Does that mean the 50 million that was  
 22 transferred from Graduate to DVOG?  
 23 MR. RYAN: Objection, no foundation.  
 24 A. I assume that's what he means by that.  
 25 Q. (BY MR. TORBORG) Okay. But since you 02:49PM

1 that, but, you know, we didn't think there was  
 2 \$50 million of reserves, general reserves out  
 3 there for Delaware Valley A/R.  
 4 Q. (BY MR. TORBORG) But you don't recall  
 5 specifically telling that to anyone at Coopers & 02:50PM  
 6 Lybrand?  
 7 A. I don't remember specifically, no.  
 8 Q. But you may have?  
 9 MR. RYAN: Objection.  
 10 A. I may have, sure. 02:50PM  
 11 Q. (BY MR. TORBORG) Do you recall that  
 12 you often discussed the amount of excess general  
 13 reserves on various AHERF entities' books with  
 14 Coopers & Lybrand?  
 15 MR. RYAN: Objection. 02:51PM  
 16 A. Could you be more specific?  
 17 Q. (BY MR. TORBORG) My question is more  
 18 general in nature, and that is: Do you recall  
 19 discussing the concept of general excess reserves  
 20 on AHERF entities' books with Coopers & Lybrand? 02:51PM  
 21 A. Yeah. I mean, there was reserves.  
 22 You know, we've looked at various reserve  
 23 schedules, and some of those components would  
 24 have -- those issues would have came up at times.  
 25 Q. Do you know if -- do you know if 02:51PM

Daniel Cancelmi

Volume 6

<p style="text-align: right;">Page 1730</p> <p>1 Coopers was aware that AHERF kept track of its 2 excess reserves via something called an X-file? 3 MR. RYAN: Objection. 4 A. I don't know if they did or not. 5 Q. (BY MR. TORBORG) Okay. Mr. Cancelmi, 02:51PM 6 I'm handing you what we've marked as Exhibit 8 7 previously. I suspect you'll tell me that you 8 remember this one. 9 A. Yeah. 10 Q. Okay. And this, again, is a memo that 02:52PM 11 talks about the creation of \$50 million of 12 reserves on the Graduate hospitals for transfer 13 to the Delaware Valley hospitals to increase the 14 Delaware Valley hospitals' bad debt reserves, 15 right? 02:52PM 16 A. Correct. 17 Q. Okay. Now, I wanted to focus on some 18 language in the second paragraph of this document 19 that starts with the sentence, "Granted," about 20 eight lines down. Are you with me? 02:53PM 21 A. Uh-huh. 22 Q. There you wrote, "Granted, the 23 reallocation of these reserves from the Graduate 24 hospitals to other Delaware Valley hospitals is 25 not the most technically appropriate resting 02:53PM</p>	<p style="text-align: right;">Page 1732</p> <p>1 consider patient accounts receivable. 2 Q. Do you recall, Mr. Cancelmi, whose 3 idea it was to view the transfer of these 4 reserves on a consolidated financial statement 5 basis? 02:54PM 6 MR. RYAN: Objection. 7 A. I think I've testified a number of 8 different times. I don't know exactly whose idea 9 it was, but based on, you know, AHERF's 10 management evaluation of this issue in 02:54PM 11 conjunction with Coopers &amp; Lybrand, it was 12 determined that it would be okay to record these 13 as such. 14 Q. (BY MR. TORBORG) Okay. But you don't 15 recall whose idea it was to view this transfer on 02:55PM 16 a consolidated basis? 17 MR. RYAN: Objection. 18 A. Like I've said countless times, I 19 don't know -- I mean, I've had conversations with 20 Steve Spargo at the time. We were having 02:55PM 21 conversations with Coopers &amp; Lybrand at the time. 22 I think I've said a number of different times I'm 23 not sure I could tell you whose exact idea it 24 was. 25 Q. (BY MR. TORBORG) Let me show you 02:55PM</p>
<p style="text-align: right;">Page 1731</p> <p>1 place. However, since only one set of financial 2 statements will be prepared at the consolidated 3 AHERF level, the precise placement of the 4 reserves on the individual hospitals' financial 5 statements becomes less critical. The key 02:53PM 6 element is that at the consolidated level, 7 sufficient consolidated reserves exist to cover 8 the consolidated patient receivable balances," 9 right? 10 A. Right. Uh-huh. 02:53PM 11 MR. TYCKO: I think you left out one 12 word when you were reading that. You left out 13 the word "audited." "Since only one audited 14 set of financial statements." 15 MR. TORBORG: Yes, can you 02:53PM 16 reflect -- correct the record to reflect that? 17 Thanks. 18 Q. (BY MR. TORBORG) Can you explain what 19 you meant there? 20 A. Oh, I've testified about this numerous 02:54PM 21 times, that the rationale was that there would be 22 reserves on a consolidated basis within the 23 consolidated set of financial statements, and 24 then on a consolidated basis that there would be 25 sufficient reserves on a consolidated basis to 02:54PM</p>	<p style="text-align: right;">Page 1733</p> <p>1 this. Do you recall discussing with Coopers &amp; 2 Lybrand in the April time frame, when this idea 3 was initially broached, that you -- that Coopers 4 could view in its audit these transfers on a 5 consolidated basis? 02:56PM 6 MR. RYAN: Objection. 7 A. Yeah, I've testified to that a number 8 of times that, you know, we were discussing this 9 with Coopers at that time frame. 10 Q. (BY MR. TORBORG) And my question is 02:56PM 11 that specific point, which is they could look at 12 the transfer on a consolidated basis when 13 deciding whether or not and deciding their 14 responsibilities as auditors? 15 A. That was my understanding -- 02:56PM 16 MR. RYAN: Objection. 17 A. That was my understanding how it was 18 being looked at, on a consolidated basis. 19 Q. (BY MR. TORBORG) Okay. And this was 20 something that was discussed as early as April of 02:56PM 21 1997? 22 MR. RYAN: Objection. 23 A. That's my recollection. 24 Q. (BY MR. TORBORG) Whose idea was it 25 initially to go to a consolidated audit format 02:56PM</p>

Daniel Cancelmi

Volume 6

<p style="text-align: right;">Page 1746</p> <p>1 A. Okay.</p> <p>2 Q. And specifically focusing on the last 3 paragraph in that first page, you wrote in this 4 May 5th [sic], '97 memorandum to Chuck Morrison, 5 "The third set of adjustments recorded in 03:16PM 6 March 1997 consisted of reclassing 9.7 million of 7 September 1996 patient revenue adjustments to the 8 bad debt reserve accounts. As you may recall, 9 these adjustments were initially recorded in 10 September 1996 since the revenue results at this 03:16PM 11 time appeared unusually low. The September 12 adjustments were initially recorded in the 13 balance sheet contractual allowance accounts 14 (i.e., a debit to the contractual allowance 15 accounts and a credit to patient revenue) and 03:17PM 16 reclassified as a debit to the bad debt reserve 17 accounts in March of '97 -- March of 1997," 18 right?</p> <p>19 A. Uh-huh.</p> <p>20 Q. Does this refresh your recollection 03:17PM about those?</p> <p>21 A. Yes.</p> <p>22 Q. Okay. Now, if one were to conclude 23 that -- strike that.</p> <p>24 So of the \$71.3 million transferred 03:17PM</p>	<p style="text-align: right;">Page 1748</p> <p>1 debt expense, right? It would be an adjustment 2 to patient revenue, right?</p> <p>3 MR. RYAN: Objection.</p> <p>4 A. That depends what the adjustment is 5 related to. I mean, initially when they were 03:19PM 6 recorded in the billing system, they went against 7 revenue, and then management wanted to sort 8 through them, get an understanding what was going 9 on; so at that point, they instructed us to 10 reverse those adjustments and they stayed 03:19PM 11 reversed until later on in the year when they 12 were -- the adjustments were taken against the 13 bad debt reserve.</p> <p>14 MR. TORBORG: Let me mark, please, 15 and I promise I won't ask you a whole lot of 03:19PM 16 questions about this one...</p> <p>17 (Exhibit 2294 marked.)</p> <p>18 Q. (BY MR. TORBORG) For the record, what 19 I've marked as Exhibit 2294 bears the Bates 20 numbering DC4546, 1 of 2, through DC4614, page 1 03:20PM 21 of 1, and I'll represent that these Bates labels 22 were put on here by someone who scanned these 23 documents onto an electric -- an electronic 24 format, okay?</p> <p>25 And I ask that you turn to the second 03:20PM</p>
<p style="text-align: right;">Page 1747</p> <p>1 from the Graduate reserves to the Delaware Valley 2 Obligated Group allowance for uncollectible 3 accounts, right --</p> <p>4 A. Uh-huh.</p> <p>5 Q. -- some portion of that did not 03:17PM 6 actually serve to reduce a bad debt reserve 7 shortfall or to cover a bad debt reserve 8 shortfall, but instead, to cover, so to speak, 9 these patient revenue adjustments, right?</p> <p>10 A. Well, we moved over the adjustment 03:18PM 11 into the bad debt reserve account. Initially, it 12 was just -- the adjustment was made on the P&amp;L, 13 and then it was later reversed, and it was 14 applied against the bad debt reserve account.</p> <p>15 Q. But eventually, you would have debited 03:18PM 16 the bad debt reserve account to cover these 17 favorable adjustments, right?</p> <p>18 A. That's eventually what did happen.</p> <p>19 Q. Right. Okay.</p> <p>20 So if one wanted to restate the 03:18PM 21 financial statements for 1997, 1996 the 22 adjustment of the 71.3 million transferred to bad 23 debt accounts, the portion relating to the -- the 24 portion that covered the favorable revenue 25 adjustments would not be an adjustment to bad 03:18PM</p>	<p style="text-align: right;">Page 1749</p> <p>1 page of this particular exhibit. I can also 2 represent that these documents were produced out 3 of your files, okay?</p> <p>4 A. Okay.</p> <p>5 Q. Now, does the second page bearing the 03:21PM 6 Bates label DC4546, page 2 of 2, does that appear 7 to be a copy of a file folder called "Cushion 8 Reserve"?</p> <p>9 A. Yes.</p> <p>10 Q. Okay. And then the last page in this 03:21PM 11 collection would be the page that would signify 12 the end of your reserve file? Actually, you 13 wouldn't know that, so I'll strike that.</p> <p>14 Mr. Cancelmi, does the collection of 15 documents you're holding appear to be the 03:22PM 16 contents of a file that was titled "Cushion, 17 backslash, Reserve"?</p> <p>18 A. Yes.</p> <p>19 Q. Okay. And what is this collection of 20 documents? 03:22PM</p> <p>21 A. It's all the various schedules 22 which -- at various points in time throughout 23 various years of reserves or potential reserves 24 or issues related to reserves.</p> <p>25 Q. All right. Mr. Cancelmi, I'm also now 03:22PM</p>

53 (Pages 1746 to 1749)

Daniel Cancelmi

Volume 6

<p style="text-align: right;">Page 1750</p> <p>1 showing you what has previously been marked as      2 Exhibit 1692, which bears the Bates number      3 JD-DC0000100 through 153. And if you would take      4 a glance through that document and tell me if you      5 recognize it. 03:23PM</p> <p>6 MR. TYCKO: I'm sorry. What was the      7 question?</p> <p>8 MR. TORBORG: I'm asking him to      9 identify the document, see if he recognizes the      10 document. 03:23PM</p> <p>11 A. It just looks like various schedules I      12 had on various adjustments, revenue or bad debts      13 that I had in my files.</p> <p>14 Q. (BY MR. TORBORG) Does this collection      15 of documents appear to be a file for revenue 03:24PM      16 adjustments made throughout fiscal year 1996?</p> <p>17 MR. RYAN: Objection.</p> <p>18 A. I'd have to look at every one of them.      19 It looks like, you know, it goes back a number of      20 months. 03:24PM</p> <p>21 Q. (BY MR. TORBORG) Okay. Do you      22 recall, Mr. Cancelmi, that throughout fiscal year      23 1996 AHERF recorded a number of revenue      24 adjustments that served to increase net patient      25 service revenue? 03:24PM</p>	<p style="text-align: right;">Page 1752</p> <p>1 right?      2 A. Yes.</p> <p>3 Q. Okay. Do you recall whether you      4 utilized reserves contained on the reserve      5 schedule in order to -- or when I say you, I 03:26PM      6 mean, AHERF -- utilized reserves contained on the      7 reserve schedule in order to make revenue      8 adjustments?</p> <p>9 A. Yes.</p> <p>10 Q. Do you recall that throughout fiscal 03:27PM      11 year 1996, AHERF utilized a significant amount of      12 reserves to improve the bottom line for 1996?</p> <p>13 A. I don't remember the dollar amount,      14 but, I mean, looks from here -- it looks like a      15 lot of cost report reserves were used and -- 03:27PM</p> <p>16 Q. Okay.</p> <p>17 A. -- other reserves.</p> <p>18 Q. I'd like to hand you what has been      19 marked previously as Exhibit 1340.</p> <p>20 MR. TORBORG: And for the record, it 03:27PM      21 is a June -- it is a work paper for the 1996      22 audit, "Issue Topic, Nonrecurring Income in the      23 Current Year."</p> <p>24 Q. (BY MR. TORBORG) If you would look at      25 that document. 03:28PM</p>
<p style="text-align: right;">Page 1751</p> <p>1 A. Yeah. I mean, I think, you know, some      2 of those adjustments are outlined in here.</p> <p>3 Q. Mr. Cancelmi, if you would flip back      4 to what we've marked as Exhibit 2294,      5 specifically at the Bates page ending DC4588, 03:25PM      6 page 5 of 8.</p> <p>7 A. Okay.</p> <p>8 Q. Okay. And can you identify this      9 document for me, this particular page?</p> <p>10 A. It's another one of the reserve 03:26PM      11 schedules. This one looks like it has      12 January '96 numbers on it and June '95.</p> <p>13 Q. Do you see under the section for      14 HUH -- which I take it is Hahnemann University      15 Hospital? 03:26PM</p> <p>16 A. Yes.</p> <p>17 Q. -- you have listed some various      18 reserves and then at the end of that, there's      19 something called FY '96 revenue adjustment?</p> <p>20 A. Yes. 03:26PM</p> <p>21 Q. In the amount of 12,522,000?</p> <p>22 A. Uh-huh.</p> <p>23 Q. And then at the end of the -- toward      24 the end of the next section, "Others," we see      25 some revenue adjustments for other entities, 03:26PM</p>	<p style="text-align: right;">Page 1753</p> <p>1 A. Okay.</p> <p>2 Q. Mr. Cancelmi, let me ask you first:      3 When you were at Coopers &amp; Lybrand, were you      4 familiar with the concept of something being an      5 issue? 03:28PM</p> <p>6 A. An issue?</p> <p>7 Q. Issue, I-S-S-E-U. There being an      8 issue?</p> <p>9 A. E-U or U-E?</p> <p>10 Q. I think I mean U-E. 03:28PM</p> <p>11 A. Okay.</p> <p>12 Q. It's been a long day.</p> <p>13 A. Yeah, I know.</p> <p>14 Q. Issue.</p> <p>15 A. Yeah. I'm not sure what you're 03:29PM      16 referring to.</p> <p>17 Q. Okay. You don't recall that during      18 your time at Coopers &amp; Lybrand, certain financial      19 reporting issues were deemed to be important      20 enough to be called an issue? 03:29PM</p> <p>21 A. I think that was after my time there.</p> <p>22 Q. Okay.</p> <p>23 A. They called them MAP items when I was      24 there.</p> <p>25 Q. Okay. Which would be matters for the 03:29PM</p>

54 (Pages 1750 to 1753)

Daniel Cancelmi

Volume 6

<p style="text-align: right;">Page 1754</p> <p>1 attention of partner?      2 A. Right.      3 Q. Okay. Do you recall a matter for the      4 attention of a partner classification called      5 "Financial Statement Disclosure"? 03:29PM      6 MR. RYAN: Objection.      7 A. For AHERF?      8 Q. (BY MR. TORBORG) No.      9 A. Oh.      10 Q. Just the concept, generally, of that. 03:29PM      11 A. No, there was no standard. The only      12 standard MAP item that I remember was the SUD.      13 Everything else was -- was unique to that      14 particular audit.      15 Q. Okay. Do you see in this particular 03:29PM      16 work paper Coopers has noted some income that is      17 nonrecurring that was recorded in fiscal      18 year '96?      19 A. Yes.      20 Q. Specifically, 7.4 relating to 03:30PM      21 noncurrent CRA reserves and 12 million of other      22 CRA reserves, perhaps relating to PIP activity as      23 well, and then another 5.2 relating to Health      24 Partners?      25 A. Yes. 03:30PM</p>	<p style="text-align: right;">Page 1755</p> <p>1 MR. TORBORG: Okay. Almost done.      2 We'll charge through, and I'll be done.      3 MR. TYCKO: "Charging through" is a      4 relative term in this case.      5 MR. TORBORG: I've got something 03:32PM      6 else I have to do. Why don't we take a break.      7 I won't need more than ten minutes.      8 THE VIDEOGRAPHER: We're off the      9 record at 3:32 p.m. This concludes Tape No. 6.      10 (Recess taken.) 03:32PM      11 (Exhibit 2295 marked.)      12 THE VIDEOGRAPHER: We're back on the      13 record at 3:44 p.m. This is the beginning of      14 Tape 7.      15 Q. (BY MR. TORBORG) Welcome back, 03:43PM      16 Mr. Cancelmi. I've marked as Exhibit 2295, a      17 one-page document entitled "Lockhart Trusts      18 Summary," and have you had the opportunity to      19 review that document?      20 A. Yes. 03:43PM      21 Q. Okay. Did you create this document?      22 A. Yeah. I mean, it looks like my      23 secretary typed it.      24 Q. Okay.      25 A. Me and Carolyn probably would have 03:44PM</p>
<p style="text-align: right;">Page 1755</p> <p>1 Q. Do you recall any discussions with      2 Coopers &amp; Lybrand in conjunction with the '96      3 audit about what disclosure, if any, of that      4 nonrecurring revenue may need to be made in the      5 financial statements? 03:30PM      6 A. Offhand, I don't remember specifically      7 whether there was a -- whether we had a      8 discussion, whether it needed to be disclosed      9 separately. The cost report adjustments -- I'm      10 trying to remember. There actually may have been 03:30PM      11 a disclosure. I'm not sure.      12 Q. Well, the cost report disclosures      13 would be something that is a standard part of the      14 footnote disclosure in every one of AHERF's      15 fiscal year audits, right? 03:31PM      16 A. Yes.      17 Q. All right. Not anything particular to      18 a particular fiscal year, right?      19 MR. RYAN: Objection.      20 A. No, it's sort of standard practice, 03:31PM      21 depending how big they are. Some hospitals      22 disclose cost report adjustments, but others      23 don't. It just -- I guess it depends. I mean, a      24 lot of places do, but then there's others that      25 don't. 03:31PM</p>	<p style="text-align: right;">Page 1757</p> <p>1 worked on it.      2 Q. Okay. And what does this document do?      3 A. It summarizes the activity in the      4 Lockhart trusts for '96, '97 and '98.      5 Q. And does it show the -- amongst other 03:44PM      6 things, the income statement impact of the      7 reclassifications of what we've called the      8 Lockhart trusts?      9 MR. RYAN: Objection.      10 A. It shows the various income statement 03:44PM      11 activity for the various transactions related to      12 Lockhart trusts during those particular years.      13 Q. (BY MR. TORBORG) If you'd keep that      14 to one side, I'd like to hand you now what's      15 previously been marked as Exhibit 19. 03:45PM      16 A. Okay.      17 Q. For the record, Exhibit 19, the first      18 page is titled "Allegheny Health, Education and      19 Research Foundation Analysis of Endowments,      20 June 30, 1996." 03:45PM      21 Mr. Cancelmi, do you recognize the      22 first page of this document?      23 A. Yes.      24 Q. Okay. And do you recognize it based      25 on your review of this document in and around the 03:45PM</p>

55 (Pages 1754 to 1757)

Daniel Cancelmi

Volume 6

		Page 1758			Page 1760
1	1996 audit time frame or afterwards?		1	A. Yes, I see that.	
2	A. Probably after.		2	Q. (BY MR. TORBORG) Okay. There's an	
3	Q. Okay. Does it appear as though, if we		3	aggregate \$4,478,000 that in Exhibit 2295 is	
4	look at the table below, it says "Special Purpose	03:46PM	4	titled "Assets Released from Restriction," and	
5	Fund - Temporarily Restricted" and it has an		5	that had an income statement impact, right? 03:48PM	
6	account number there, and there's a balance		6	MR. RYAN: Objection.	
7	listed there of approximately \$70.7 million?		7	A. Yes.	
8	A. Yes.		8	Q. (BY MR. TORBORG) Okay. And then	
9	Q. Right.		9	there is a -- something called in this schedule a	
10	And that's the combination, is it not, 03:46PM		10	transfer to unrestricted fund balance of 03:48PM	
11	of the unrealized and -- unrealized gains and		11	13,456,000, right?	
12	realized gains as of June 30th, 1995, for the		12	A. Yes.	
13	five AHERF irrevocable trusts?		13	MR. RYAN: Objection.	
14	A. Yes.		14	Q. (BY MR. TORBORG) And that matches the	
15	Q. Right. 03:46PM		15	figure that we see on Exhibit 19, right? 03:49PM	
16	MR. RYAN: Could I get that last		16	A. Yes.	
17	question read back, please?		17	Q. Okay. Now, does it appear as though	
18	(The following portion of the record		18	one of these items went to the income statement	
19	was read.)		19	and the other one did not? Is that right?	
20	"QUESTION: And that's the		20	MR. RYAN: Objection. 03:49PM	
21	combination, is it not, of the unrealized		21	A. Yes.	
22	and -- unrealized gains and realized gains as		22	Q. (BY MR. TORBORG) Do you know why	
23	of June 30th, 1995, for the five AHERF		23	there was a difference in that treatment?	
24	irrevocable trusts?"		24	MR. RYAN: Objection.	
25	MR. RYAN: We need to go back one		25	A. I don't -- I don't know what that 13.4 03:49PM	
		Page 1759			Page 1761
1	more. I'm sorry. I missed what the "that"		1	related to. Just...	
2	referred to.		2	Q. (BY MR. TORBORG) Now, this left a	
3	(The following portion of the record		3	temporarily restricted balance of 52,787,000 and	
4	was read.)		4	change at the end of fiscal year '96, right?	
5	"QUESTION: Does it appear as		5	A. Yes. 03:49PM	
6	though, if we look at the table below, it says		6	Q. Okay.	
7	"Special Purpose Fund - Temporarily Restricted"		7	(Exhibit 2296 marked.)	
8	and it has an account number there, and there's		8	MR. TORBORG: For the record, I've	
9	a balance listed there of approximately		9	marked as Exhibit 2296 a document bearing the	
10	\$70.7 million, right?" 03:47PM		10	Bates numbers CL 010415 through 420, and it 03:50PM	
11	MR. RYAN: Thanks. Sorry, David, to		11	appears to be a production out of Coopers &	
12	interrupt.		12	Lybrand -- Coopers & Lybrand's work paper files	
13	MR. TORBORG: That's fine.		13	for the '96 audit.	
14	Q. (BY MR. TORBORG) And that amount of		14	Q. (BY MR. TORBORG) And, Mr. Cancelmi,	
15	70 point, roughly, 7 million dollars matches a 03:47PM		15	if you would flip through these -- this 03:50PM	
16	number we see on Exhibit 2295 at the top of the		16	particular schedule for me.	
17	page, "Temporary Fund Balance," fund balance at		17	A. Okay.	
18	7/1/95?		18	Q. Okay. Do you recognize the schedules	
19	A. Yes.		19	in Exhibit 2296?	
20	Q. Right. Okay. 03:47PM		20	A. Yeah, I guess so. 03:51PM	
21	Now, do you see on Exhibit 19 there		21	Q. Do you recall them from your review of	
22	appears to have been some reductions in the		22	the schedules during the '96 audit or afterwards?	
23	temporarily restricted category throughout fiscal		23	A. Well, probably afterwards,	
24	year 1996 as also reflected in Exhibit 2295?		24	because '96, I don't think I was involved in '96.	
25	MR. RYAN: Objection to form. 03:48PM		25	Q. Okay. If you would flip to the Bates 03:52PM	

56 (Pages 1758 to 1761)

Daniel Cancelmi

Volume 6

<p style="text-align: right;">Page 1810</p> <p>1                   CERTIFICATE 2 3     The State of Texas, ) 4     SS: 5     County of Galveston. ) 6 7         I, Michael E. Miller, CSR, RPR, CRR, 8     Certified Shorthand Reporter in and for the State 9     of Texas, duly commissioned and qualified, do 10    hereby certify that the within named witness, 11    DANIEL CANCELMI, was by me first duly sworn to 12    testify the truth, the whole truth and nothing 13    but the truth in the cause aforesaid; that the 14    testimony then given by the above-referenced 15    witness was by me reduced to stenotype in the 16    presence of said witness; afterwards transcribed, 17    and that the foregoing is a true and correct 18    transcription of the testimony so given by the 19    above-referenced witness. 20         I do further certify that this 21    deposition was taken at the time and place in the 22    foregoing caption specified and was completed 23    without adjournment. 24 25</p>	<p style="text-align: right;">Page 1812</p> <p>1                   INDEX 2     REPORTER'S NOTE                           1543 3     ATTORNEYS' AGREEMENTS                  1545 4     PROCEEDINGS                              1547 5 6     EXAMINATION OF DANIEL CANCELMI: 7         BY MR. RYAN:                          1547 8         BY MR. TORBORG:                       1594 9         BY MR. RYAN:                          1777 10         BY MR. TORBORG:                       1808 11 12         VIDEOTAPES 13         Tape 4                                  1547 14         Tape 5                                  1594 15         Tape 6                                  1682 16         Tape 7                                  1756 17 18 19 20 21 22 23 24 25</p>
<p style="text-align: right;">Page 1811</p> <p>1         I do further certify that I am not a 2     relative, counsel or attorney for either party, 3     or otherwise interested in the event of this 4     action. 5 6         IN WITNESS WHEREOF, I have hereunto set 7     my hand and affixed my seal of office at 8     Friendswood, Texas, on this _____ day of 9     _____, 2003. 10 11 12 13 14         Michael E. Miller, CSR, RPR, CRR 15     Certified Shorthand Reporter 16     in and for the State of Texas 17     My Commission Expires 12/31/05 18 19 20 21 22 23 24 25</p>	<p style="text-align: right;">Page 1813</p> <p>1                   DEPOSITION EXHIBITS 2 3     Exhibit 2288 3/23/98 Letter to Alan           1548 4         Adamczak from William F. 5         Buetner 6         (DBR-AA 36920-922) 7 8     Exhibit 2289 11/1/93 Memo to Files from    1551 9         Daryle Yergler, Subject: 10         Graduate REIT Transaction 11         (PR-PLD-037-00513 through 12         518) 13 14     Exhibit 2290 11/4/94 Letter to Diane K.    1553 15         Schreengost from Daniel J. 16         Cancelmi 17         (DM1379.TIF, pages 1-36 18         of 36) 19 20     Exhibit 2291 8/25/98 Memo to Joseph D.    1570 21         Dionisio from Daniel J. 22         Cancelmi, Subject: Initial 23         Accounting for Transfer of 24         AHERF Irrevocable Trusts 25         (DB8309, pages 1-4 of 4) 26 27     Exhibit 2292 8/28/98 Memo to Al Adamczak 1576 28         from Daniel J. Cancelmi, 29         Subject: Proposed 30         Restatement of Audited 31         Fiscal 1997 Financial 32         Statements 33         (CLIS 0143-152) 34 35     Exhibit 2293 AHERF Account Review -       1714 36         Summary of Contractual 37         Allowances Needed for 38         Adjusting AR Valuation, 39         Detailed Review 40         (DBR-AA 52485) 41 42     Exhibit 2294 "Cushion/Reserve File"       1748 43         (Various Bates ranges, 44         beginning with DC4546, 45         page 1 of 2) 46</p>

69 (Pages 1810 to 1813)